

# MARKET REVIEW & OUTLOOK

1<sup>st</sup> Quarter  
2026

## The Sword of Damocles & The Global Economy

### ECONOMY & MARKETS

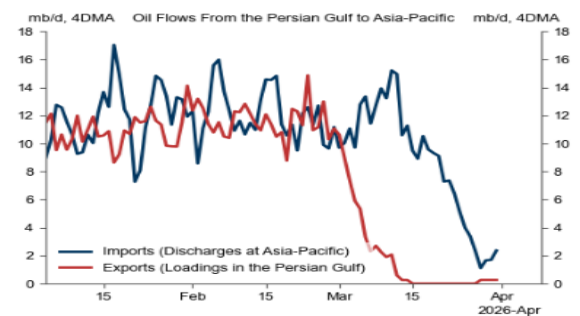
*The Sword of Damocles* is an ancient Greek moral tale illustrating that great power and influence come with constant, looming danger. In the tale, Damocles is a flattering courtier who praises King Dionysius for his wealth and power. Dionysius offers to switch places so Damocles can experience this ‘good fortune.’ While Damocles enjoys the appearance of luxury and power, he notices a sharp sword suspended above him by a single horsehair. Terrified, Damocles begs to leave the king’s throne realizing the ever-present threats that those in power face.

In much the same way, today’s sword of Damocles hanging over the global economy is the Strait of Hormuz. The global economy today is living under a perpetual threat – a single, fragile point of failure whose disruption can trigger worldwide consequences ... and it has. The war in Iran has just shown how thin the thread really is as Iran has effectively closed the strait. Roughly 20% of the world’s oil passes through the strait, along with significant amounts of liquified natural gas and other critical commodities. Four Asian economies alone receive roughly 75% of all oil flowing through the strait with China receiving ~38% (the U.S. gets ~2.5%). The sword is beginning to sway – no longer theoretical, but visibly threatening to fall. The result – oil prices surged over 76% in the first quarter, raising short-term inflation and lowering the outlook for global economic growth.

After a strong start to the year, markets gave up ground as the war in Iran developed. For the quarter, the **DJIA** lost 3.2% while the top-heavy **S&P 500** declined 4.3% ending its three-quarter winning streak and suffering its first nearly-10% correction (from the peak on January 28<sup>th</sup> to the trough on March 30<sup>th</sup>) since mid-2023. The **NASDAQ** tumbled 7.0% with a peak-to-trough drop of 12.8% as tech stocks sold off and the Magnificent 7 stocks fell 11% collectively.

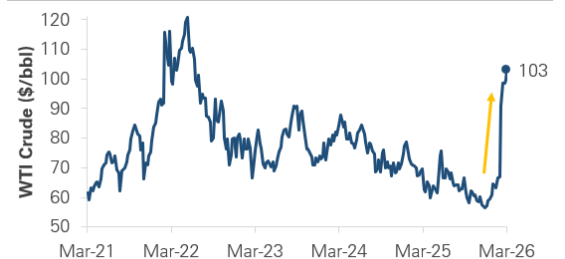
Interestingly, the S&P 500 x-Mag 7 stocks posted a modest loss of 1.0%. International markets couldn’t buck the trend as the **EAFE** Index declined 1.2% for the quarter after a strong start to the year ... falling back due to their relatively large reliance on energy imports from the Middle East. Similar to equities, bonds got off to a good start during the quarter but lost ground at the end of the quarter as rising inflation weighed on bond prices. For the quarter, the Bloomberg Aggregate **Bond Index** closed essentially flat – losing 0.05%.

Escalating geopolitical tensions and the effective closing of the Strait of Hormuz naturally led to reduced **oil exports** from the Persian Gulf and surging **oil prices** (*see below*). Of course, the longer the conflict goes on, the deeper the impact of rising prices on spending by businesses and consumers.



Source: Kpler, Goldman Sachs Global Investment Research

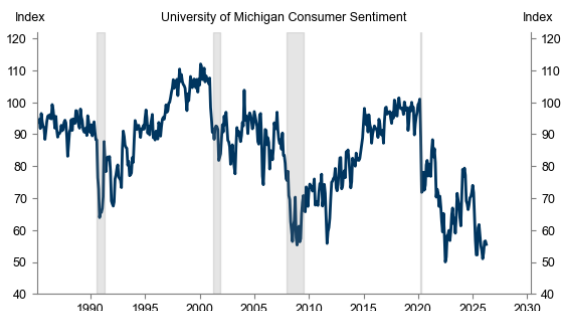
FIGURE 1 – Oil Prices Trade at the Highest Level Since Mid-2022



Source: EIA. Time Period: March 2021 to March 2026. Latest available data as of 3/31/2026.

Given the ongoing conflict and the impact of rising prices and financial market volatility, it is

no surprise that consumer sentiment fell sharply to 53.3 in March, as depicted in **The University of Michigan Consumer Sentiment Index** (see below). The sharp drop is historically consistent with a slowdown in economic growth.



Source: Goldman Sachs Global Investment Research, University of Michigan

Offsetting higher short-term inflation and weakening sentiment is a **labor market** (see below) that remains resilient. Nonfarm payrolls gained 178,000 in March as the unemployment rate dropped to 4.3% from 4.4% in February. The March employment report also showed average hourly earnings up 0.2%, or 3.5% over a year ago. The March employment report increases our confidence that economic growth can weather a fair amount of disruption caused by the recent spike in energy prices. Of course, the duration and scope of the supply disruption will be crucial.



Source: BLS, J.P. Morgan

## OUTLOOK

**Bottom Line** – Despite the challenging headline news and geopolitical tensions, history has shown us that these market and economic setbacks have usually proven temporary. Without more certainty, companies will be reluctant to provide optimistic forward guidance when they report first quarter earnings in the weeks ahead. Higher input costs will impact company profit margins and earnings and consumers will ultimately pay the price.

Slowing economic growth and rising inflation, otherwise known as stagflation, is not a desired outcome for the US and global economy. S&P 500 earnings growth for the first quarter of 2026 will likely be a robust 12% ... the sixth-consecutive quarter of double-digit earnings growth; however, tempered forward guidance will no doubt dent investor enthusiasm.

According to FactSet, consensus 2026 earnings expectations for the S&P 500 are \$320 (16.6% over 2025 earnings). With earnings expectations strong and the market selling off during the first quarter, the S&P 500 is selling for 19.7X forward earnings ... decently lower than the 22.0X multiple at year-end and closer to the 30-year average of 17.2X. We expect consensus earnings numbers to come down due to rising prices and geopolitical uncertainty. Despite the headwinds, economic growth should be reasonable, and the U.S. and global economies will likely avoid a recession.

*Bond* yields should remain range-bound with a slightly upward bias as potentially higher inflation keeps the Fed on hold at least until later in the year. Given the possibility of a stagflationary environment, we expect to keep bond duration in portfolios in the 4 to 5-year range while focusing on higher quality credits.

*Small and mid-cap equities* continue to add value to an overall asset allocation strategy. *International equities* remain attractive. Their reasonable valuations and attractive yields offer worthwhile diversification in portfolios. The S&P 500 trades at a forward P/E of 19.7X while international equities (ACWI ex-US) trade at 13.7X. *Large-cap domestic equities* - particularly those with higher quality attributes and increasing dividends, remain a core position in client portfolios. Companies with strong balance sheets and cash flow will be able to weather the economic storm that is brewing.

We continue to stress the importance of proper diversification and risk management. We suggest that investors maintain a fully diversified portfolio consistent with one's longer-term objectives and risk tolerance.

This economic storm will end ... they always do. As always, we remain available.

**Best wishes for a Happy Spring!**

## **The Paralysis of Perfection**

### **Time in The Market Beats Timing The Market ... Not Sometimes... Nearly Always**

There's a moment most investors know well: the market feels uncertain, the news is loud, and the rational move is waiting...for clarity, for a dip, for the "right" conditions. It feels prudent. It is, in fact, one of the most expensive habits in personal finance. We are in that space right now!

Market timing sounds like skill – it would be if anyone could prove they have it – but it is mostly luck. To successfully time the market, you must be right twice - when to get out, and when to get back in. Even professional fund managers, armed with research teams and decades of experience, fail at this consistently. For the individual investor, the odds are worse.

A landmark JP Morgan study found that missing just the 10 best trading days over a 20-year period cuts that return nearly in half. The cruelest irony: those best days typically cluster right after the worst ones — exactly when frightened investors are on the sidelines.

Cash feels safe but for an investor seeking appreciation, it is not. An investor with \$100,000 in a high-yield savings account at 4.5% earns \$4,500 in a year. The same amount invested in a broad index fund, in an average year, returns roughly \$10,000. That \$5,500 gap is the cost of waiting — and it compounds. Over 10 years, the cash-holder ends up with roughly \$156,000. The investor ends up with \$259,000. The difference isn't skill or luck. It's just time. This example assumes no tax. A taxable interest producing investment racks up taxable income every year – that constantly reduces returns.

The market seems to always look risky ... like right now. That feeling doesn't go away when conditions improve — it just finds a new reason to persist. The antidote isn't optimism. It's the mechanical, unglamorous discipline of investing regularly, regardless of noise.

Time in the market beats timing the market. Not sometimes. Almost always.

## **Income-Related Monthly Adjustment Amount - IRMAA: The Stealth Medicare Surcharge**

This surcharge may be added to your Medicare Part B and Part D premiums if your income exceeds certain thresholds. It's simply Medicare's way of making higher earners pay more.

In 2026, the standard Part B premium is \$202.90/month for a married couple (filing joint) with MAGI \$218,000 or less. IRMAA can push it to \$689.90/month — *per person*. For a married couple, that's \$1,379.80 per month ... just for Part B!

IRMAA is based on your income from two years prior. Your 2026 premiums are determined by your 2024 tax return. A one-time income event - selling a rental property, converting a traditional IRA, or even selling a business - may trigger IRMAA. To avoid it, focus on managing your Modified Adjusted Gross Income (MAGI) deliberately, especially in the years approaching and during Medicare eligibility.

Roth conversions before 65 is a powerful tactic. Converting IRA money while you're still below Medicare age reduces future RMDs, which are a common IRMAA trigger later. Spreading income events over multiple years rather than taking large lump sums may help. Qualified Charitable Distributions (QCDs) allow those 70½+ to send IRA money directly to charity to satisfy RMDs and they elude MAGI. Tax-loss harvesting offsets realized gains and helps keep reportable income lower.

IRMAA is one of those quiet retirement costs that rarely gets planned for and consistently surprises people. The best time to manage it is before Medicare begins — ideally years before — which makes it a topic worth knowing well ahead of 65.

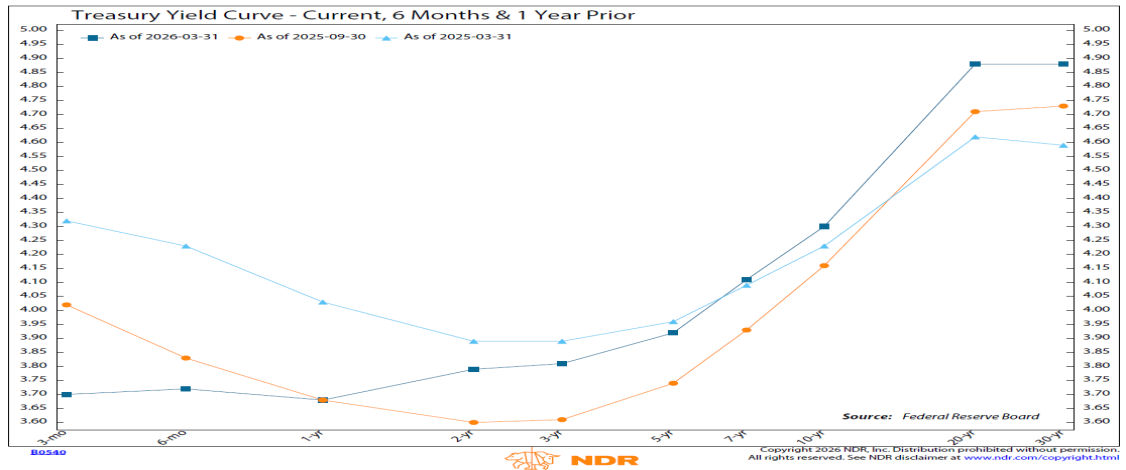
Focus on long-term goals ...

Remember ...

## 1<sup>st</sup> QUARTER 2026 SCOREBOARD

Index	Close	1 <sup>st</sup> Quarter % Change	Year-to-Date % Change
DJIA	46341.5	-3.2	-3.2
S&P 500	6528.5	-4.3	-4.3
NASDAQ	21590.6	-7.0	-7.0
Russell 2000	2496.4	0.9	0.9
MSCI EAFE	10473.2	-1.2	-1.2
3 Month T-Bill	3.69%	Fed Funds Rate	3.50% - 3.75%
5 Year T-Note	3.95%	Prime Rate	6.75%
10 Year T-Note	4.32%	Gold	\$4647.60
30 Year T-Note	4.91%	Oil	\$101.38

Gold corrected 12.6% from its 52-week peak, but still finished the quarter up by 7.4%.  
Oil prices spiked 76.6% during the quarter ... an added tax on businesses and consumers.



Bonds prices were flat in Q1

*Please remember that past performance may not be indicative of future results. Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Newman Dignan & Sheerar, Inc.; d/b/a NDS Wealth Advisors ("NDS"), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this newsletter serves as the receipt of, or as a substitute for, personalized investment advice from NDS. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. NDS is neither a law firm, nor a certified public accounting firm, and no portion of the newsletter content should be construed as legal or accounting advice. A copy of NDS's current written disclosure Brochure discussing our advisory services and fees is available upon request or at [www.newmandignan.com](http://www.newmandignan.com). **Please Note:** If you are a NDS client, please remember to contact NDS, in writing, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. NDS shall continue to rely on the accuracy of information that you have provided. **Please Note:** If you are a NDS client, please advise us if you have not been receiving account statements (at least quarterly) from the account custodian.*

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